

**REPORT OF THE AUDIT OF THE  
PERRY COUNTY  
SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES**

**For The Period  
September 30, 2006 Through September 13, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PERRY COUNTY SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES**

**For The Period  
September 30, 2006 Through September 13, 2007**

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Unmined Coal Taxes for the Perry County Sheriff for the period September 30, 2006 through September 13, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The Sheriff collected taxes of \$1,536,013 for the districts for 2006 unmined coal taxes, retaining commissions of \$44,078 to operate the Sheriff's office. The Sheriff distributed taxes of \$1,491,759 to the districts for 2006 unmined coal taxes. Taxes of \$4 are due to the districts from the Sheriff.

#### **Report Comments:**

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff did not have a written security agreement to protect deposits.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Independent Auditor's Report

We have audited the Perry County Sheriff's Settlement - 2006 Unmined Coal Taxes for the period September 30, 2006 through September 13, 2007. This tax settlement is the responsibility of the Perry County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Perry County Sheriff's taxes charged, credited, and paid for the period September 30, 2006 through September 13, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated November 5, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Denny Ray Noble, Perry County Judge/Executive

Honorable John Leslie Burgett, Perry County Sheriff

Members of the Perry County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

November 5, 2008



PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
SHERIFF'S SETTLEMENT - 2006 UNMINED COAL TAXES

For The Period September 30, 2006 Through September 13, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Official Receipt	\$ 198,828	\$ 338,850	\$ 800,883	\$ 257,070
Penalties	490	836	1,972	633
Gross Chargeable to Sheriff	199,318	339,686	802,855	257,703
<u>Credits</u>				
Exonerations	1,394	2,458	5,619	1,803
Discounts	3,671	6,255	14,788	4,746
Delinquent Real Estate	2,848	4,833	11,452	3,682
Total Credits	7,913	13,546	31,859	10,231
Taxes Collected	191,405	326,140	770,996	247,472
Less: Commissions *	8,135	13,861	11,564	10,518
Taxes Due	183,270	312,279	759,432	236,954
Taxes Paid	183,249	312,243	759,341	236,926
Refunds (Current and Prior Year)	21	36	87	28
Due Districts				
as of Completion of Audit	\$ 0	\$ 0	\$ 4	\$ 0
			**	
* Commissions:				
4.25% on \$765,017				
1.5% on \$770,996				
** School Taxing Districts:				
Graded School District	\$ 4			
Due District	\$ 4			

The accompanying notes are an integral part of this financial statement.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT

September 13, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met, as the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the surety bond provided as collateral.

PERRY COUNTY  
NOTES TO FINANCIAL STATEMENT  
September 13, 2007  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of September 13, 2007, all deposits were covered by FDIC insurance or a surety bond; however, the Sheriff did not have a properly executed surety bond agreement.

Note 3. Tax Collection Period

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was April 5, 2007 through September 13, 2007.

Note 4. Interest Income

The Perry County Sheriff earned \$214 as interest income on 2006 Unmined Coal taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Perry County Sheriff collected \$4,194 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Perry County Sheriff collected \$345 of advertising costs allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Denny Ray Noble, Perry County Judge/Executive  
Honorable John Leslie Burgett, Perry County Sheriff  
Members of the Perry County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Perry County Sheriff's Settlement - 2006 Unmined Coal Taxes for the period September 30, 2006 Through September 13, 2007, and have issued our report thereon dated November 5, 2008. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perry County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Perry County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Perry County Sheriff's Settlement - 2006 Unmined Coal Taxes for the period September 30, 2006 through September 13, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Make Daily Deposits
- The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Perry County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Perry County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

November 5, 2008



## COMMENTS AND RECOMMENDATIONS



PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
COMMENTS AND RECOMMENDATIONS

For The Period  
September 30, 2006 Through September 13, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Make Daily Deposits

The Sheriff did not always deposit tax receipts daily. During our test of receipts, we discovered that some tax receipts were accumulated and were not deposited into an official bank account on a daily basis. The State Local Finance Officer, under the authority of KRS 68.210, has established minimum accounting requirements, which include depositing receipts intact on a daily basis and reconciling receipts to a daily check out sheet. Therefore, we recommend that the Sheriff deposit receipts daily as required by the State Local Finance Officer.

*Sheriff's Response: Bank deposits are now being made daily.*

The Sheriff Should Enter Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of April 30, 2007, the Sheriff had bank deposits of \$1,697,076; FDIC insurance of \$100,000; and surety bond provided as collateral pledged of \$5,100,000. Even though the Sheriff obtained sufficient collateral of \$5,100,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the surety bond provided as collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the surety bond provided as collateral. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

*Sheriff's Response: This has been corrected by obtaining a written agreement to protect deposits.*

PERRY COUNTY  
JOHN LESLIE BURGETT, SHERIFF  
COMMENTS AND RECOMMENDATIONS  
For The Period September 30, 2006 Through September 13, 2007  
(Continued)

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY/MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

We conclude the internal control structure lacks an adequate segregation of duties because employees responsible for collecting tax receipts are also responsible for preparing daily deposits, preparing receipts and disbursements ledgers, issuing checks, and for preparing the monthly bank reconciliations. In addition, no other staff member including the Sheriff verified the work performed by these individuals.

Allowing the same employees to be responsible for duties that are not adequately segregated increases the risk that misstatements or errors may occur and not be detected in a timely manner. Therefore, the Sheriff should consider segregating duties among employees to help strengthen the internal control structure in his office. For example, the duties of collecting tax receipts, recording transactions, preparing deposits, preparing bank reconciliations, and issuing checks could be delegated among different employees. When it is not practical to segregate duties, because of limited resources, the Sheriff should establish compensating controls to address the lack of adequate segregation of duties. Such compensating controls could include the Sheriff periodically reviewing and verifying the accuracy of work performed by others. The Sheriff should document his review and verification of work performed by others by initialing the work in question.

*Sheriff's Response: Due to additional staff this segregation of duties will now be possible.*

